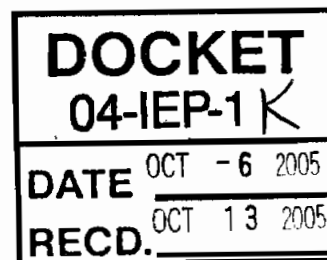


October 6, 2005

Pedro J. Pizarro
Senior Vice President

Chairman Joe Desmond
California Energy Commission
1516 Ninth Street
Sacramento, CA 95814-5512



Dear Chairman Desmond:

Thank you for the opportunity to comment on your letter to Commissioners Geesman and Boyd regarding a responsible clean coal policy for California. Southern California Edison (SCE) supports development of clean coal technologies as a way of tapping this abundant western fuel source in a manner that addresses the climate change issue. However, as described below, the particular policies you recommend raise several serious concerns that can lead to adverse outcomes if implemented. SCE stands ready to work with the State to craft policies that will encourage cost-effective, clean technologies of all types for the benefit of California, its surrounding neighbor states and the broader environment.

Given the realities surrounding the adequacy and volatility of natural gas supplies that have plagued California for over five decades, the prospect of economically efficient coal power that minimizes adverse effects on the global environment is very attractive to both California and the nation. To support clean coal technologies, SCE is an active member in Electric Power Research Institute's ("EPRI") "CoalFleet for Tomorrow" initiative and technology assessment program (Program 66) to advance the development and application of a portfolio of advanced coal technologies.

SCE sees significant problems with a requirement that new base load coal plants meet natural gas fired combined cycle CO₂ emission rates in the near/mid term. First, although significant advancements have been made in clean coal technologies in recent years, no one technology has emerged as superior. Moreover, carbon separation and sequestration at the scale required is immature and does not yet represent a commercially feasible solution to greenhouse gas emissions. Integrated gasified combined cycle (IGCC) plants that can operate commercially using western coals should be developed as soon as practicable. At the same time, California should pursue aggressively the development of commercially feasible sequestration techniques that can be incorporated into operating and future IGCC plants. As the IEPR quotes Governor Schwarzenegger's response to the *2004 Energy Report Update*, "It is impossible to predict which technologies will advance to commercial maturity most rapidly, so a variety of technology paths must be encouraged."¹ To require that new coal plants meet combined cycle combustion turbine CO₂ emission rates at this time would deprive Californians of an important source of affordable electric power. Natural gas prices are rising and there are significant concerns about supply. California will need affordable electricity from a variety of energy sources including coal.

¹ Committee Draft IEPR, September 15, 2005, page 69

An additional concern is that the proposed greenhouse gas (GHG) performance standard, which would apply to all energy resources, both in-state and out-of-state, both coal and non-coal, and based on net emissions per megawatt-hour would be impossible to enforce if implemented. The net emission performance standard could create perverse incentives and higher costs through "*carbon laundering*" whereby coal power is sold to hydro plant owners who then sell power at inflated prices into California. In this scenario, Californians would be paying higher prices and little or no reductions in greenhouse gases would occur. The focus should be encouraging the rapid development of clean coal by those that have accepted the challenge from a business perspective, and for California to develop the systems needed to capture and sequester the adverse emissions.

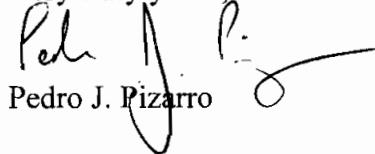
We must restate our view that it is imperative that any mandatory GHG emissions reduction standard include a reasonable offset provision that allows for valid reductions wherever they are most cost effective. GHGs distribute around the globe rapidly, making a reduction or a sequestration equally effective no matter where it takes place. By allowing legitimate GHG offsets without geographic restriction, the State can assure whatever GHG reduction goal it may choose to enact is achieved at the least cost to Californians.

In any event, the type of state-imposed limitations on power procurement contracts suggested in your letter would need to overcome substantial legal hurdles, including the interstate commerce clause. Further, a failure to apply such procurement limitations to all load serving entities (including municipal utilities, community choice aggregators and ESPs) would create serious distortions in the State's electricity marketplace and raise additional equitable and legal issues.

For your information, I am attaching a copy of SCE's comments on California Climate Change Policy, originally filed as a response to the Climate Change Advisory Committee Power Sector Subcommittee Report in CEC Docket #04-CCAC-1 on August 3, 2005. It outlines the Company's position on climate change policy.

Please let me know if I can provide you with any additional information. SCE will continue to actively participate and help develop the final IEPR and further policies on these and other important energy issues.

Very truly yours,


Pedro J. Pizarro

Attachment

cc: President Michael R. Peevey, CPUC
Commissioner Geoffrey F. Brown, CPUC
Commissioner Susan P. Kennedy, CPUC
Commissioner Dian M. Grueneich, CPUC
Commissioner John A. Bohn, CPUC

Vice Chairman Jackalyn Pfannenstiel, CEC
Commissioner Arthur H. Rosenfeld, Ph.D., CEC
Commissioner James D. Boyd, CEC
Commissioner John L. Geesman, J.D., CEC

Southern California Edison Comments on California Climate Change Policy ¹

Southern California Edison (SCE) appreciates the opportunity to participate in the work of the California Energy Commission Advisory Committee on Climate Change Policy.

SCE agrees that global warming is occurring and that there is a potential for significant harm to the climate system. We agree that actions to address global warming are necessary. SCE believes that action to address global warming will be most effective if taken at the international and national level. We support the federal government's extensive program to address climate change. We supported enactment of a federal renewable portfolio standard in the recent Senate consideration of the National Energy Bill.

If California chooses to enact mandatory greenhouse gas emission (GHG) reduction programs, in particular with respect to the electricity sector, it should work in concert with the electrically interconnected western states represented in the Western Electricity Coordinating Council. SCE is concerned that unilateral mandates by California, particularly with respect to GHG emissions associated with the generation of electricity, will not be effective due to the likelihood that mandates to reduce emissions here will shift carbon emissions to generators in other states with which California is linked electrically, thus eliminating any overall reduction in emissions. Unilateral California mandates will likely result in higher prices to California customers and will threaten the reliability of the state's electric supply.

California's electricity supply system is carbon efficient. The carbon intensity of the electricity consumed in California is about 40% less than the nation as a whole, and significantly less than that of our neighboring western states. California is in this positive position because of existing ozone-reduction policies, which led to early reliance on natural gas-fired generation, and existing energy efficiency programs, which require investor owned electric utilities to implement extensive end use energy efficiency and conservation programs and to meet an aggressive renewable portfolio standard. (SCE leads the nation in procurement of renewable energy. At present, nearly 19% of the electricity we distribute to our customers comes from renewable sources as defined in the RPS statute.) SCE supports continued reasonable efforts to improve electric end use efficiency. On June 1, 2005 SCE filed an Application with the CPUC for over \$728 million in energy efficiency funding for the years 2006-2008, nearly triple the previous annual levels of investment in energy efficiency programs. We will continue our aggressive effort to procure renewable energy and believe California should enact legislation to require all load serving entities (LSEs), including municipally owned electric utilities, to meet the same RPS standards presently required of investor owned electric utilities. Individual RPS commitments by such entities are not sufficient, nor is it

¹ Submitted originally as: "Southern California Edison Comments on Climate Change Policy and the Cavanaugh/Schori Power Sector Subcommittee Draft Report Dated July 26, 2005 in CEC, California Climate Change Advisory Committee, Docket #04-CCAC-1, August 3, 2005"

equitable to require one standard of the private sector utilities and another of the municipal utilities.

SCE respects the Governor's decision to address the climate change issue through Executive Order S-3-05. However, for the reasons stated above, we believe it is critical to assess the feasibility and cost of meeting the GHG emission reduction targets and timetables detailed in Executive Order S-2-05 before imposing mandates to meet those targets.

In compliance with the CPUC decision in its long term procurement plan, SCE is taking GHG emissions into account in its electric power procurement process by employing the "GHG adder" as directed by the CPUC. Since municipal utilities in California supply a significant amount of the electricity consumed in the state, municipal utilities should be required to employ the same GHG adder in their procurement activities.

Addressing climate change is a decades-long global problem. As the Intergovernmental Panel on Climate Change Third Assessment Report indicates, effectively stabilizing greenhouse gas concentrations in the atmosphere will likely require reduction of global GHG to levels below 1990. It is not yet clear how much time global society has to make this change, but it is reasonable to conclude that it will take at least several decades to achieve such dramatic change. Early, dramatic reductions in GHG emissions will be expensive and may be unnecessary if we can make a transition to lower or zero carbon intensive energy supply over a longer time frame. In the near term, California and the nation should take reasonable and cost-effective steps to increase the efficiency of energy production and to develop renewable power. If California acts unilaterally, it should include in its policy an open GHG offset program without restriction and a price limit on cost per ton of carbon dioxide equivalent reduced.

Finally, because the nation as a whole and California will need to continue to rely on coal for some portion of its electric energy supply, it behooves the federal and state government to provide leadership to advance policies to develop technology to capture and store carbon dioxide produced in the course of using coal.